SouthGobi Resources Ltd.
Condensed Consolidated Interim Financial Statements

September 30, 2023
(Expressed in U.S. Dollars)
(Unaudited)

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Notice of no audit review of condensed consolidated financial statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditor, BDO Limited, have not reviewed the unaudited condensed consolidated financial statements for the three-month and nine-month periods ended September 30, 2023 as a result of time constraints related to evaluating event associated with the Company's provision of tax penalty announced on July 31, 2023 and prevented the auditor from completing their review procedures in time to meet the filing deadline. The Audit Committee of the Company has reviewed the unaudited condensed interim consolidated financial statements for three-month and nine-month periods ended September 30, 2023. The Company has chosen to file its unaudited condensed interim consolidated financial statements without the benefit of the auditor completing its review, as the Audit Committee and the Board of Directors have determined that the Company's unaudited condensed interim consolidated financial statements for the three-month and nine-month periods ended September 30, 2023 fairly present the Company's financial position and financial performance for that period in accordance with IFRS and the Company's accounting policies.

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Comprehensive Income

(Unaudited)

(Expressed in thousands of U.S. Dollars, except for share and per share amounts)

	Notes	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Revenue	4	**$ 97,979**	$ 36,807	**$ 243,002**	$ 42,597
Cost of sales	6	**(48,569)**	(32,036)	**(121,550)**	(38,110)
Gross profit		**49,410**	4,771	**121,452**	4,487
Other operating income/(expenses), net	7	**(413)**	546	**(5,178)**	6,382
Administration expenses		**(1,846)**	(1,830)	**(6,558)**	(4,808)
Evaluation and exploration expenses		**(808)**	(31)	**(900)**	(121)
Provision of tax penalty	8	**-**	-	**(74,990)**	-
Profit from operations		**46,343**	3,456	**33,826**	5,940
Finance costs	9	**(13,266)**	(10,800)	**(36,732)**	(31,029)
Finance income	9	**4,915**	69	**5,038**	1,188
Share of earnings/(loss) of joint ventures		**809**	237	**1,739**	(24)
Profit/(loss) before tax		**38,801**	(7,038)	**3,871**	(23,925)
Current income tax expenses	10	**(9,452)**	(979)	**(27,299)**	(1,917)
Net profit/(loss) attributable to equity holders of the Company		**29,349**	(8,017)	**(23,428)**	(25,842)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods					
Exchange difference on translation of foreign operation		**(1,704)**	(7,923)	**(1,851)**	(20,917)
Net comprehensive income/(loss) attributable to equity holders of the Company		**$ 27,645**	$ (15,940)	**$ (25,279)**	$ (46,759)
Basic and diluted earnings/(loss) per share	11	**$ 0.10**	$ (0.03)	**$ (0.08)**	$ (0.09)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Financial Position

(Unaudited)

(Expressed in thousands of U.S. Dollars, except for share and per share amounts)

	Notes	As at September 30, 2023	As at December 31, 2022
Assets			
Current assets			
Cash and cash equivalents		**$ 36,417**	$ 9,255
Restricted cash		**411**	725
Trade and other receivables	12	**4,554**	1,199
Inventories	13	**39,053**	34,830
Prepaid expenses		**6,280**	1,486
Total current assets		**86,715**	47,495
Non-current assets			
Property, plant and equipment	14	**140,970**	119,346
Inventories	13	**1,871**	-
Investments in joint ventures		**14,949**	14,518
Total non-current assets		**157,790**	133,864
Total assets		**$ 244,505**	$ 181,359
Equity and liabilities			
Current liabilities			
Trade and other payables	15	**$ 67,107**	$ 59,730
Provision of tax penalty	8	**74,990**	-
Deferred revenue		**11,240**	30,282
Lease liabilities		**588**	298
Income tax payable		**17,506**	1,066
Current portion of convertible debenture	16	**145,049**	140,784
Total current liabilities		**316,480**	232,160
Non-current liabilities			
Lease liabilities		**602**	204
Convertible debenture	16	**86,641**	83,869
Decommissioning liability		**8,568**	7,650
Total non-current liabilities		**95,811**	91,723
Total liabilities		**412,291**	323,883
Equity			
Common shares		**1,101,771**	1,101,764
Share option reserve		**53,028**	53,018
Capital reserve		**396**	396
Exchange fluctuation reserve		**(57,063)**	(55,212)
Accumulated deficit		**(1,265,918)**	(1,242,490)
Total deficiency in assets		**(167,786)**	(142,524)
Total equity and liabilities		**$ 244,505**	$ 181,359
Net current liabilities		**$ (229,765)**	$ (184,665)
Total assets less current liabilities		**$ (71,975)**	$ (50,801)

Corporate information and going concern (Note 1) and commitments for expenditure (Note 19)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

APPROVED BY THE BOARD:

"Mao Sun"	***"Ruibin Xu"***
Director	Director

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Changes in Equity

(Unaudited)

(Expressed in thousands of U.S. Dollars and shares/units in thousands)

	Number of shares/units	Share capital	Share option reserve	Capital reserve	Exchange fluctuation reserve	Accumulated deficit	Total
Balances, January 1, 2022	274,116	$ 1,098,835	$ 52,858	$ 396	$ (30,468)	$ (1,212,071)	$ (90,450)
Net loss for the period	-	-	-	-	-	(25,842)	(25,842)
Exchange differences on translation of foreign operations	-	-	-	-	(20,917)	-	(20,917)
Total comprehensive loss attributable to equity holders of the Company	-	-	-	-	(20,917)	(25,842)	(46,759)
Shares issued for:							
Employee share purchase plan	139	25	-	-	-	-	25
Share-based compensation charged to operations	-	-	125	-	-	-	125
Balances, September 30, 2022	274,255	$ 1,098,860	$ 52,983	$ 396	$ (51,385)	$ (1,237,913)	$ (137,059)
Balances, January 1, 2023	**295,227**	**$ 1,101,764**	**$ 53,018**	**$ 396**	**$ (55,212)**	**$ (1,242,490)**	**$ (142,524)**
Net loss for the period	**-**	**-**	**-**	**-**	**-**	**(23,428)**	**(23,428)**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**(1,851)**	**-**	**(1,851)**
Total comprehensive loss attributable to equity holders of the Company	**-**	**-**	**-**	**-**	**(1,851)**	**(23,428)**	**(25,279)**
Shares issued for:							
Exercise of stock options	**51**	**5**	**-**	**-**	**-**	**-**	**5**
Share-based compensation charged to operations	**-**	**2**	**10**	**-**	**-**	**-**	**12**
Balances, September 30, 2023	**295,278**	**$ 1,101,771**	**$ 53,028**	**$ 396**	**$ (57,063)**	**$ (1,265,918)**	**$ (167,786)**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Cash Flows

(Unaudited)
(Expressed in thousands of U.S. Dollars)

	Notes	Nine months ended September 30, 2023	2022
Operating activities			
Profit/(loss) before tax		**$ 3,871**	$ (23,925)
Adjustments for:			
Depreciation and depletion		**4,223**	2,888
Share-based compensation	5	**12**	125
Interest expense on convertible debenture	9	**34,939**	29,053
Interest expense on borrowings	9	**-**	5
Interest elements on leased assets	9	**44**	67
Accretion of decommissioning liability	9	**282**	444
Fair value loss/(gain) on embedded derivatives in convertible debenture	9	**(52)**	14
Interest income	9	**(136)**	(30)
Share of loss/(earnings) of a joint venture		**(1,739)**	24
Gain on disposal of items of property, plant and equipment, net	7	**-**	(195)
Provision/(reversal of provision) for doubtful trade and other receivables	12	**178**	(618)
Reversal of impairment on materials and supplies inventories	7	**(262)**	(10)
Discount on settlement of trade payables	7	**-**	(127)
Written off of other payables	7	**-**	(3,287)
Gain on contract offsetting arrangement	7	**-**	(667)
Penalty on late settlement of trade payables	7	**454**	1,860
Gain on modification of convertible debenture	9	**(4,850)**	(1,158)
Provision of tax penalty	8	**74,990**	-
Operating cash flows before changes in working capital items		**111,954**	4,463
Net change in working capital items	18	**(31,525)**	13,872
Cash generated from operating activities		**80,429**	18,335
Interest paid		**-**	(6)
Income tax paid		**(5,141)**	(2,745)
Net cash flows from operating activities		**75,288**	15,584
Investing activities			
Expenditures on property, plant and equipment		**(25,387)**	(5,610)
Proceeds from disposal of property, plant and equipment		**45**	200
Interest received	9	**136**	30
Investments in joint ventures		**(720)**	(22)
Dividend from a joint venture		**1,962**	252
Net cash flows used in investing activities		**(23,964)**	(5,150)
Financing activities			
Interest payment of convertible debenture	16.4	**(23,000)**	-
Repayment of interest-bearing loan		**-**	(45)
Proceeds from exercise of share options		**5**	-
Capital elements of lease rental paid		**(288)**	(213)
Interest elements of lease rentals paid		**(43)**	(67)
Proceed from issued shares for employee share purchase plan		**-**	25
Net cash flows used in financing activities		**(23,326)**	(300)
Effect of foreign exchange rate changes, net		**(836)**	(3,113)
Increase in cash and cash equivalents		**27,162**	7,021
Cash and cash equivalents, beginning of period		**9,255**	723
Cash and cash equivalents, end of period		**$ 36,417**	$ 7,744

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

1. CORPORATE INFORMATION AND GOING CONCERN

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed for trading on the Hong Kong Stock Exchange ("HKEX") (Symbol: 1878) and TSX Venture Exchange ("TSX-V") (Symbol: SGQ). The company, together with its subsidiaries (collectively referred to as the "Company"), is an integrated coal mining, development and exploration company. Pursuant to the announcement of the Company dated April 17, 2023, the change of its secondary listing status to primary listing on the Main Board of the HKEX became effective. The Company's common shares are primary listed on the HKEX and listed on the TSX-V as of the opening of trade on April 17, 2023 in Canada. At September 30, 2023, to the Company's best knowledge, JD Zhixing Fund L.P. ("JDZF") owned approximately 29.0% of the outstanding common shares of the Company. Land Grand International Holding Limited ("Land Grand") and Voyage Wisdom Limited owned approximately 15.7% and 8.7% of the outstanding common shares of the Company, respectively.

The Company owns the following coal projects in Mongolia: the Ovoot Tolgoi open pit producing coal mine ("Ovoot Tolgoi Mine"), the Soumber Deposit, the Zag Suuj Deposit and the Ovoot Tolgoi Underground Deposit. These projects are located in the Umnugobi Aimag (South Gobi Province) of Mongolia, within 150 kilometers of each other and in close proximity to the Mongolia-China border. The Company owns a 100% interest in these coal projects.

The registered and records office of the Company is located at 20th Floor, 250 Howe Street, Vancouver, British Columbia, Canada, V6C 3R8. The principal place of business of the Company is located at Unit 1208-10, Tower One, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong.

Going concern assumption

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least September 30, 2024 and will be able to realise its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's condensed consolidated interim financial statements. The Company incurred a loss attributable to equity holder of the Company of $23,428 for the first nine months of 2023 (compared to a loss attributable to equity holder of the Company of $25,842 for the first nine months of 2022), and had a deficiency in assets of $167,786 as at September 30, 2023 as compared to a deficiency in assets of $142,524 as at December 31, 2022 while the working capital deficiency (excess current liabilities over current assets) reached $229,765 as at September 30, 2023 compared to a working capital deficiency of $184,665 as at December 31, 2022.

Included in the working capital deficiency as at September 30, 2023 are significant obligations, represented by trade and other payables of $67,107, which includes $26,200 in unpaid taxes that are repayable on demand to the Mongolian Tax Authority ("MTA") and a provision of a tax penalty of $74,990.

The Company may not be able to settle all trade and other payables on a timely basis, and as a result any continuing postponement in settling of certain trade and other payables owed to suppliers and creditors may impact the ability of the Company to resume its mining operations and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Furthermore, there is no guarantee that the Company will be successful in its negotiations with the MTA, or any appeal, in relation to the periodic tax audit. Except as disclosed elsewhere in these condensed consolidated interim financial statements, no such lawsuits or proceedings were pending as at November 14, 2023. However, there can be no assurance that no such lawsuits or proceedings will be filed by the Company's creditors in the future and the Company's suppliers and contractors will continue to supply and provide services to the Company uninterrupted.

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

Going concern assumption (continued)

There are significant uncertainties as to the outcomes of the above events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern and, therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. Should the use of the going concern basis in preparation of the condensed consolidated interim financial statements be determined to be not appropriate, adjustments would have to be made to write down the carrying amounts of the Company’s assets to their realisable values, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the condensed consolidated interim financial statements. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation.

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from September 30, 2023. The cash flow projection has considered the anticipated cash flows to be generated from the Company’s business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company’s liquidity and financial position, which include: (a) entering into the 2023 March Deferral Agreement with JDZF on March 24, 2023 for a deferral of (i) semi-annual cash interest payments of $7,934 payable to JDZF on May 19, 2023 under the Convertible Debenture; (ii) the cash interest, management fees, and related deferral fees of approximately $8,716 which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated May 13, 2022; (iii) the cash and payment-in-kind interest (“PIK Interest”), and related deferral fees of approximately $13,460 which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated July 30, 2021; and (iv) the cash and PIK Interest, management fees, and related deferral fees of approximately $110,406 which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated November 19, 2020, in each case until August 31, 2024; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; (c) continuously assessing through communication with MTA its acceptability to a prolonged settlement schedule of the outstanding tax payable and making settlement based on that assessment and the liquidity position of the Company; and (d) obtaining an avenue of financial support from an affiliate of the Company’s major shareholder for a maximum amount of $73,000 during the period covered in the cash flow projection. Regarding these plans and measures, there is no guarantee that the suppliers and MTA would agree the settlement plan as communicated by the Company. Nevertheless, after considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from September 30, 2023 and therefore are satisfied that it is appropriate to prepare the condensed consolidated interim financial statements on a going concern basis.

Factors that impact the Company’s liquidity are being closely monitored and include, but are not limited to, restrictions on the Company's ability to import its coal products for sale in China, Chinese economic growth, market prices of coal, production levels, operating cash costs, capital costs, exchange rates of currencies of countries where the Company operates and exploration and discretionary expenditures.

As at September 30, 2023 and December 31, 2022, the Company was not subject to any externally imposed capital requirements.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard ("IAS") 34 - "Interim Financial Reporting" using accounting policies in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and Interpretations of the IFRS Interpretations Committee.

The condensed consolidated interim financial statements of the Company for the nine months ended September 30, 2023 were approved and authorised for issue by the Board of Directors of the Company (the "Board") on November 14, 2023.

2.2 Basis of presentation

These condensed consolidated interim financial statements have been prepared using accounting policies and methods of computation consistent with those applied in the Company's December 31, 2022 consolidated annual financial statements. These condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2022.

2.3 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognised in the Company's condensed consolidated interim financial statements are included in Note 3.23 to the Company's December 31, 2022 consolidated annual financial statements. The significant accounting judgments and estimates remain substantially unchanged from December 31, 2022.

Review of carrying value of assets and impairment charges

In the determination of carrying values and impairment charges, management of the Company reviews the recoverable amount (the higher of the fair value less costs of disposal or the value in use) in the case of non-financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognised in profit or loss and the resulting carrying amounts of assets.

Ovoot Tolgoi Mine cash generating unit

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at September 30, 2023. The impairment indicator was the potential closure of border crossings in the future. Since the recoverable amount was higher than carrying value of the Ovoot Tolgoi Mine cash generating unit, there was no impairment of non-financial asset recognised during the nine months ended September 30, 2023.

2. BASIS OF PREPARATION (CONTINUED)

2.3 Significant accounting judgments and estimates (continued)

Expected credit losses for trade and other receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses on its trade receivables and estimates expected credit loss based on the possible default events on its trade and other receivables. The Company has determined that the loss allowance on its trade and other receivables was $22,444 as at September 30, 2023 (December 31, 2022: $22,599).

Estimated resources

The Company estimates its mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. Changes in resource estimates may impact the carrying value of mining interests, mine restoration provisions, recognition of deferred tax assets, and depreciation and amortization charges.

Estimated recoverable reserves

Reserve estimates involve expressions of judgment based on various factors such as knowledge, experience and industry practice, and the accuracy of these estimates may be affected by many factors, including estimates and assumptions with respect to coal prices, operating costs, mine plan and life, coal quality and recovery, foreign currency exchange rates and inflation rates. Reserve estimates are made by qualified persons, but will be impacted by changes in the above estimates and assumptions.

Estimated recoverable reserves are used to determine the depletion of mineral properties, in accounting for deferred production stripping costs, in performing impairment testing and for forecasting the timing of the payment of decommissioning, restoration and similar costs. Therefore, changes in the estimates and assumptions used to determine recoverable reserves could impact the carrying value of assets, depletion expense and impairment charges recognised in profit or loss and the carrying value of the decommissioning, restoration and similar liabilities.

Long term F-grade coal inventory

As a result of import restrictions established by Chinese authorities at the Ceke border, the Company has been barred from transporting its F-grade coal products into China for sale since December 15, 2018. The Company intends to realise the value of the F-grade coal inventory upon the coal washing and coal blending in order to meet the import standards from Chinese authorities.

Useful lives and depreciation rates for property, plant and equipment

Depreciation expense is allocated based on estimated property, plant and equipment useful lives and depreciation rates except the mineral properties are depreciated on unit-of production basis based on proven and probable reserves. Therefore, changes in the useful life or depreciation rates from the initial estimate could impact the carrying value of property, plant and equipment and an adjustment would be recognised in profit or loss.

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

3. SEGMENTED INFORMATION

The Company's chief executive officer (chief operating decision maker) reviews the financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. No operating segment identified by the Board has been aggregated in arriving at the reporting segments of the Company. For management's purpose, the Company has only one reportable operating segment, which is the coal division. The division is principally engaged in coal mining, development and exploration in Mongolia, and logistics and trading of coal in Mongolia and China for the nine months ended September 30, 2023 and 2022.

The Company's resources are integrated and as a result, no discrete operating segment financial information is available. Since this is the only reportable and operating segment of the Company, no further analysis thereof is presented. All the revenue of the Company is generated from trading of coal for the nine months ended September 30, 2023 and 2022.

3.1 Information about major customers

During the nine months ended September 30, 2023, the Coal Division had seventy active customers. Three customers with respective revenues contributed over 10% of the total revenue during the nine months ended September 30, 2023, with the largest customer accounting for 21% of revenues, the second largest customer accounting for 12% of revenues and the third largest customer accounting for 11% of revenues. One customer with respective revenues contributed over 10% of the total revenue during the nine months ended September 30, 2022, with the largest customer accounting for 16% of revenues.

3.2 Geographical information

The operations of the Company are primarily located in Mongolia, Hong Kong and China.

	Mongolia	Hong Kong	China	Consolidated Total
Revenue [(i)]				
For the three months ended September 30, 2023	**$ -**	**$ -**	**$ 97,979**	**$ 97,979**
For the three months ended September 30, 2022	-	-	36,807	36,807
For the nine months ended September 30, 2023	**$ -**	**$ -**	**$ 243,002**	**$ 243,002**
For the nine months ended September 30, 2022	-	-	42,597	42,597
Non-current assets				
As at September 30, 2023	**$ 155,868**	**$ 186**	**$ 1,736**	**$ 157,790**
As at December 31, 2022	133,345	337	182	133,864

(i) The revenue information above is based on the locations of the customers.

4. REVENUE

Revenue represents the value of goods sold which arises from the trading of coal. The Company recognises all revenue from the trading of coal at a point in time when the customer obtains control of the goods or services.

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

5. EXPENSES BY NATURE

The Company's expenses by nature are summarised as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Depreciation	**$ 1,545**	$ 1,734	**$ 4,223**	$ 2,888
Auditors' remuneration	**36**	36	**108**	108
Employee benefit expense (including directors' remuneration)				
Wages and salaries	**$ 2,037**	$ 1,669	**$ 6,409**	$ 4,042
Equity-settled share option expense	**-**	33	**12**	125
Pension scheme contributions	**408**	190	**983**	431
	$ 2,445	$ 1,892	**$ 7,404**	$ 4,598
Lease payments under operating leases	**$ 232**	$ 11	**$ 349**	$ 119
Foreign exchange loss/(gain), net (Note 7)	**(1,246)**	(2,198)	**1,211**	(4,094)
Reversal of impairment on materials and supplies inventories (Note 7)	**(81)**	-	**(262)**	(10)
Royalties (Note 6)	**9,082**	6,799	**30,250**	8,330
Management fee (Note 7)	**1,754**	666	**3,650**	821
Provision/(reversal of provision) for doubtful trade and other receivables (Note 7)	**(2)**	(64)	**178**	(618)
Gain on disposal of items of property, plant and equipment, net (Note 7)	**-**	(162)	**-**	(195)
Penalty on late settlement of trade payables (Note 7)	**-**	1,860	**454**	1,860
Rental income from short term leases (Note 7)	**(12)**	(39)	**(53)**	(65)
Discount on settlement of trade payables (Note 7)	**-**	(127)	**-**	(127)
Written off of other payables (Note 7)	**-**	(482)	**-**	(3,287)
Gain on contract offsetting arrangement (Note 7)	**-**	-	**-**	(667)
Provision of tax penalty (Note 8)	**-**	-	**74,990**	-
Mine operating costs and others	**37,883**	23,425	**86,674**	26,996
Total operating expenses	**$ 51,636**	$ 33,351	**$ 209,176**	$ 36,657

6. COST OF SALES

The Company's cost of sales consists of the following amounts:

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Operating expenses	**$ 38,044**	$ 23,599	**$ 87,440**	$ 27,185
Share-based compensation expense	**1**	8	**4**	29
Depreciation and depletion	**1,361**	1,419	**3,729**	1,692
Royalties	**9,082**	6,799	**30,250**	8,330
Cost of sales from mine operations	**48,488**	31,825	**121,423**	37,236
Cost of sales related to idled mine assets (i)	**81**	211	**127**	874
Cost of sales	**$ 48,569**	$ 32,036	**$ 121,550**	$ 38,110

(i) Cost of sales related to idled mine assets for the nine months ended September 30, 2023 includes $127 of depreciation expense (September 30, 2022: $874). The depreciation expense relates to the Company's idled plant and equipment.

Cost of inventories recognised as expense in cost of sales for the three months ended September 30, 2023 totaled $27,566 (September 30, 2022: $23,488). Cost of inventories recognised as expense in cost of sales for the nine months ended September 30, 2023 totaled $68,149 (September 30, 2022: $26,099).

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

7. OTHER OPERATING EXPENSES/(INCOME), NET

The Company's other operating expenses/(income) consist of the following amounts:

	Three months ended September 2023,		Nine months ended September 2023,	
	2023	**2022**	**2023**	**2022**
Management fee (Note 17)	**$ 1,754**	$ 666	**$ 3,650**	821
Provision/(reversal of provision) for doubtful trade and other receivables (Note 12)	**(2)**	(64)	**178**	(618)
Foreign exchange loss/(gain), net	**(1,246)**	(2,198)	**1,211**	(4,094)
Gain on disposal of items of property, plant and equipment, net (Note 14)	**-**	(162)	**-**	(195)
Reversal of impairment on materials and supplies inventories (Note 13)	**(81)**	-	**(262)**	(10)
Rental income from short term leases	**(12)**	(39)	**(53)**	(65)
Discount on settlement of trade payables	**-**	(127)	**-**	(127)
Written off of other payables[(i)]	**-**	(482)	**-**	(3,287)
Penalty on late settlement of trade payables	**-**	1,860	**454**	1,860
Gain on contract offsetting arrangement	**-**	-	**-**	(667)
Other operating expenses/(income), net	**$ 413**	$ (546)	**$ 5,178**	$ (6,382)

(i) The Company has determined that no amount has to be written off in respect of significant vendor payable (September 30, 2022: $3,287) which the contractual claim limitation period is expired as of the end of the reporting period pursuant to the relevant laws and regulations.

8. PROVISION OF TAX PENALTY

On July 18, 2023, SouthGobi Sands LLC ("SGS"), a wholly-owned subsidiary of the Company, received an official notice (the "Notice") issued by MTA stating that MTA has recently completed a periodic tax audit (the "Audit") on the financial information of SGS between 2017 and 2020, including transfer pricing, royalty, air-pollution fee and unpaid tax payables. As a result of the Audit, the MTA has notified SGS that they are imposing a tax penalty against SGS in the amount of approximately $74,990. Under Mongolian law, the Company has a period of 30-days from the date of receipt of the Notice to file an appeal in relation to the Audit. Subsequently the Company engaged an independent tax consultant in Mongolia to provide tax advice and support to the Company and filed an appeal letter in relation to the Audit with the MTA in accordance with Mongolian laws on August 17, 2023.

As at September 30, 2023, the Company recorded a provision for a tax penalty in the amount of $74,990. If any subsequent event occurs that may impact the amount of the provision for the tax penalty, an adjustment would be recognised in profit or loss and the carrying amount of the provision shall be adjusted.

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

9. FINANCE COSTS AND INCOME

The Company’s finance costs consist of the following amounts:

	Three months ended September 30,				Nine months ended September 30,			
	2023		2022		2023		2022	
Interest expense on convertible debenture (Note 16.4)	**$**	**12,664**	$	10,207	**$**	**34,939**	$	29,053
Fair value loss on embedded derivatives in convertible debenture (Note 16.4)		**-**		-		**-**		14
Value added tax on interest from intercompany loan		**491**		491		**1,467**		1,446
Interest expense on borrowing		**-**		-		**-**		5
Interest elements on leased assets		**14**		19		**44**		67
Accretion of decommissioning liability		**97**		83		**282**		444
Finance costs	**$**	**13,266**	$	10,800	**$**	**36,732**	$	31,029

The Company’s finance income consists of the following amounts:

	Three months ended September 30,				Nine months ended September 30,			
	2023		2022		2023		2022	
Fair value gain on embedded derivatives in convertible debenture (Note 16.4)	**$**	**11**	$	54	**$**	**52**	$	-
Gain on modification of convertible debenture (Note 16.4)		**4,850**		-		**4,850**		1,158
Interest income		**54**		15		**136**		30
Finance income	**$**	**4,915**	$	69	**$**	**5,038**	$	1,188

10. TAXES

The Canadian statutory tax rate was 27% (2022: 27%). A reconciliation between the Company’s tax expense and the product of the Company’s loss before tax multiplied by the Company’s domestic tax rate is as follows:

	Three months ended September 30,				Nine months ended September 30,			
	2023		2022		2023		2022	
Current - Canada								
Charge for the period	**$**	**-**	$	-	**$**	**-**	$	-
Current - elsewhere								
Charge for the period		**9,452**		979		**27,299**		1,917
Total tax charge for the period	**$**	**9,452**	$	979	**$**	**27,299**	$	1,917

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the following data:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Net profit/(loss)	**$ 29,349**	$ (8,017)	**$ (23,428)**	$ (25,842)
Weighted average number of shares	**295,276**	274,254	**295,276**	274,207
Basic and diluted earnings/(loss) per share	**$ 0.10**	$ (0.03)	**$ (0.08)**	$ (0.09)

Potentially dilutive items not included in the calculation of diluted earnings/(loss) per share for the period ended September 30, 2023 include the underlying shares comprised in the convertible debenture (Note 16) and stock options that were anti-dilutive.

12. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of the following amounts:

	As at	
	September 30, 2023	December 31, 2022
Trade receivables	**$ -**	$ -
Other receivables	**4,554**	1,199
Total trade and other receivables	**$ 4,554**	$ 1,199

The aging of the Company's trade and other receivables is as follows:

	As at	
	September 30, 2023	December 31, 2022
Less than 1 month	**$ 2,445**	$ 1,104
1 to 3 months	**1,424**	47
3 to 6 months	**685**	48
Over 6 months	**-**	-
Total trade and other receivables	**$ 4,554**	$ 1,199

Overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or other credit enhancements over its trade and other receivable balances.

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

12. TRADE AND OTHER RECEIVABLES (CONTINUED)

The Company has determined that the loss allowance on its trade and other receivables was $22,444 (December 31, 2022: $22,599) as at September 30, 2023, based upon an expected loss rate of 10% for trade and other receivables 90 days past due and 100% for trade and other receivables 180 days past due. The closing allowance for trade and other receivables as at September 30, 2023 reconcile to the opening loss allowance as follows:

Loss allowance for trade and other receivables		
Opening loss allowance as at January 1, 2023	**$**	**22,599**
Increase in loss allowance recognised in profit or loss during the period (Note 7)		**178**
Exchange realignment		**(333)**
Loss allowance as at September 30, 2023	**$**	**22,444**
Opening loss allowance as at January 1, 2022	$	23,841
Decrease in loss allowance recognised in profit or loss during the period (Note 7)		(618)
Exchange realignment		(678)
Loss allowance as at September 30, 2022	$	22,545

13. INVENTORIES

The Company's inventories consist of the following amounts:

	As at			
	September 30, 2023		**December 31, 2022**	
Current inventories				
Coal stockpiles	**$**	**29,753**	$	26,857
Materials and supplies		**9,300**		7,973
	$	**39,053**	$	34,830
Non-current inventories				
Coal stockpiles		**1,871**		-
Total inventories	**$**	**40,924**	$	34,830

Other operating income for the nine months ended September 30, 2023 included a reversal of impairment loss of $262 (September 30, 2022: $10) related to the Company's materials and supplies inventories.

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

14. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended September 30, 2023, the Company acquired items of plant and equipment with a cost including mineral properties of approximately $27,770 (nine months ended September 30, 2022: $5,618). Items of plant and equipment with net carrying amount of approximately $50 (nine months ended September 30, 2022: $nil) were disposed during the nine months ended September 30, 2023 and with sales proceeds of $50 (nine months ended September 30, 2022: $195), resulting in a gain on disposal of $nil (nine months ended September 30, 2022: gain on disposal of $195).

14.1 Non-depreciable assets

The non-depreciable assets mainly include the construction in progress. Depreciation on these assets will commence once they are ready for their intended use.

14.2 Pledge on items of property, plant and equipment

As at September 30, 2023, most of the Company's mobile equipment and other operating equipment with carrying value of $3,082 (December 31, 2022: $2,347) were pledged as security of convertible debenture.

14.3 Right-of-use assets

The right-of-use assets relate to the buildings as at September 30, 2023 and December 31, 2022.

14.4 Impairment charges

No impairment nor reversal of impairment was made during the nine months ended September 30, 2023 (December 31, 2022: $nil).

15. TRADE AND OTHER PAYABLES

Trade and other payables of the Company primarily consist of amounts outstanding for trade purchases relating to coal mining, development and exploration activities and mining royalties payable. The usual credit period taken for trade purchases is between 30 to 90 days.

The aging of the Company's trade and other payables, based on invoice date, is as follows:

	As at	
	September 30, 2023	**December 31, 2022**
Less than 1 month	**$ 9,312**	$ 14,402
1 to 3 months	**11,497**	5,886
3 to 6 months	**4,080**	3,772
Over 6 months	**42,218**	35,670
Total trade and other payables	**$ 67,107**	$ 59,730

The trade and other payables of $67,107 (December 31, 2022: $59,730) included other tax payables totaling $26,200 (December 31, 2022: $22,542).

16. CONVERTIBLE DEBENTURE

16.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, “CIC”) for $500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company’s Common Shares) and has a maximum term of 30 years. The convertible debenture is secured by a first ranking charge over the Company’s assets, including shares of its material subsidiaries. During 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 common shares. Following the conversion, the outstanding principal balance was $250,000 and has remained unchanged at that balance to September 30, 2023.

Following the completion of the CIC Sale Transaction on August 30, 2022, the respective rights and obligations of CIC under (i) the Convertible Debenture and related security documents; (ii) the amended and restated mutual cooperation agreement signed on April 23, 2019 (the “Amended and Restated Cooperation Agreement”) and related documents; (iii) the deferral agreements between CIC, the Company and certain of its subsidiaries in connection with the deferral of interest payments and other outstanding fees under the Convertible Debenture and the Amended and Restated Cooperation Agreement; and (iv) the security holders agreement between the Company, CIC and a former shareholder of the Company, were assigned to JDZF.

The key commercial terms of the financing include:

- Interest - 8% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company’s common shares, where the number of shares to be issued is calculated based on the 50-day volume-weighted average price (“VWAP”)).
- Term - Maximum of 30 years.
- Security - First charge over the Company’s assets, including shares of its material subsidiaries.
- Conversion price - The conversion price is set as the lower of CA$11.88 or the 50-day VWAP at the date of conversion, with a floor price of CA$8.88 per share.
- Representation on the Company’s Board - While the convertible debenture is outstanding, or while JDZF has a minimum 15% direct or indirect stake in the Company, JDZF has the right to nominate one director to the Board. As of the date hereof, the Company currently has eight Board members of which three (Mr. Ruibin Xu, Ms. Chonglin Zhu and Mr. Shen Chen) were nominated by JDZF.
- Voting restriction - JDZF has agreed that it will not have any voting rights in the Company beyond 29.9% if JDZF ever acquires ownership of such a shareholder stake.
- Pre-emption rights - While the convertible debenture is outstanding, or while JDZF has a 15% direct or indirect stake in the Company, JDZF has certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by the Company for the period which the convertible debenture is outstanding. The pre-emption rights will not apply to new shares issued pursuant to pro-rata public equity offerings made to all shareholders, exercise of stock options and shares issued to achieve a 25% public float.
- Registration rights - JDZF has registration rights under applicable Canadian provincial securities laws in connection with the common shares issuable upon conversion of the convertible debenture.
- Event of default - JDZF could demand for the principal and corresponding interest from the Company immediately when certain events, including default of interest payment, suspension of trading and its shares are involuntarily delisted from the TSX-V and the HKEX have occurred.

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

16. CONVERTIBLE DEBENTURE (CONTINUED)

16.2 Debt host and embedded derivatives

The convertible debenture is presented as a liability since it contains no equity components. The convertible debenture is a hybrid instrument, containing a debt host component and three embedded derivatives - the investor's conversion option, the issuer's conversion option and the equity based interest payment provision (the 1.6% share interest payment) (the "embedded derivatives"). The debt host component is classified as other financial liabilities and is measured at amortised cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss.

The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the convertible debenture.

The embedded derivatives were valued upon initial measurement and subsequent periods using a Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when modeling systems with a large number of inputs and where there is significant uncertainty in the future value of inputs and where the movement of the inputs can be independent of each other. Some of the key inputs used by the Company in its Monte Carlo simulation include: the floor and ceiling conversion prices, the Company's common share price, the risk-free rate of return, expected volatility of the Company's common share price, forward foreign exchange rate curves (between the CA$ and U.S. dollar) and spot foreign exchange rates.

The convertible debenture is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing convertible debenture is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original convertible debenture and a recognition of a new convertible debenture, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

The terms of exchanged or modified debt as 'substantially different' if the net present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted at the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows of the original convertible debenture.

16.3 Valuation assumptions

The specific terms and assumptions used in the Company's valuation models are as follows:

	As at	
	September 30, 2023	**December 31, 2022**
Floor conversion price	**CA$8.88**	CA$8.88
Ceiling conversion price	**CA$11.88**	CA$11.88
Common share price	**CA$0.12**	CA$0.17
Historical volatility	**29%**	29%
Risk free rate of return	**4.49%**	3.95%
Foreign exchange spot rate (CA$ to U.S. Dollar)	**0.74**	0.74
Forward foreign exchange rate curve (CA$ to U.S. Dollar)	**0.736 to 0.845**	0.738 to 0.808

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

16. CONVERTIBLE DEBENTURE (CONTINUED)

16.4 Presentation

Based on the Company's valuation as at September 30, 2023, the fair value of the embedded derivatives decreased by $52 (September 30, 2022: increased by $14) compared to December 31, 2022. The decrease was recorded as finance income for the nine months ended September 30, 2023.

For the nine months ended September 30, 2023, the Company recorded interest expense of $34,939 related to the convertible debenture as a finance cost (September 30, 2022: $29,053). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 18.9%.

The movements of the amounts due under the convertible debenture are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Balance, beginning of period	**$ 236,887**	$ 209,382	**$ 224,653**	$ 191,626
Interest expense on convertible debenture (Note 9)	**12,664**	10,207	**34,939**	29,053
Increase/(decrease) in fair value of embedded derivatives (Note 9)	**(11)**	(54)	**(52)**	14
Gain on modification of convertible debenture (Note 9)	**(4,850)**	-	**(4,850)**	(1,158)
Interest paid	**(13,000)**	-	**(23,000)**	-
Balance, end of period	**$ 231,690**	$ 219,535	**$ 231,690**	$ 219,535

The convertible debenture balance consists of the following amounts:

	As at	
	September 30, 2023	**December 31, 2022**
Current convertible debenture		
Interest payable	**$ 145,049**	$ 140,784
	145,049	140,784
Non-current convertible debenture		
Debt host and interest payable	**$ 86,624**	$ 83,800
Fair value of embedded derivatives	**17**	69
	86,641	83,869
Total convertible debenture	**$ 231,690**	$ 224,653

16. CONVERTIBLE DEBENTURE (CONTINUED)

16.5 Interest deferral and settlement

On May 13, 2022, the Company and CIC entered into an agreement (the “2022 May Deferral Agreement”), pursuant to which CIC agreed to grant the Company a deferral of semi-annual cash interest payments of $7,934 payable to CIC (the “Deferred Amounts”) and the management fee which payable to CIC on February 14, 2022 and August 14, 2022 (the “Deferred Management Fee”) under the Amended and Restated Cooperation Agreement (collectively, the “2022 Deferred Amounts”) under the convertible debenture.

The principal terms of the 2022 May Deferral Agreement are as follows:

- Payment of the 2022 Deferred Amounts will be deferred until August 31, 2023.
- As consideration for the deferral of the Deferred Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the Deferred Amounts payable under the CIC convertible debenture, commencing on May 19, 2022.
- As consideration for the deferral of the Deferred Management Fees, the Company agreed to pay CIC a deferral fee equal to 2.5% per annum on the outstanding balance of the Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 May Deferred Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The Company agreed to provide CIC with monthly updates regarding its operational and financial affairs.
- If at any time before the 2022 Deferred Amounts and related deferral fee are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from CIC prior to effecting such appointment, replacement or termination.
- The Company and CIC agreed that nothing in the 2022 May Deferral Agreement prejudices CIC’s rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.

16. CONVERTIBLE DEBENTURE (CONTINUED)

16.5 Interest deferral and settlement (Continued)

On November 11, 2022, the Company and JDZF entered into an agreement (the "2022 November Deferral Agreement") pursuant to which JDZF agreed to grant the Company a deferral of: (i) semi-annual cash interest payments of $7,066 payable to JDZF on November 19, 2022; (ii) $1,100 in PIK Interest shares issuable to JDZF on November 19, 2022 under the Convertible Debenture; and (iii) the management fees payable to JDZF on November 15, 2022, February 15, 2023, May 16, 2023 and August 15, 2023 under the Amended and Restated Cooperation Agreement.

The principal terms of the 2022 November Deferral Agreement are as follows:

- Payment of the 2022 November Deferred Interest and the 2022 November Deferred Management Fees will be deferred until November 19, 2023.
- As consideration for the deferral of the 2022 November Deferred Interest, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the 2022 November Deferred Interest payable under the Convertible Debenture, commencing on November 19, 2022.
- As consideration for the deferral of the 2022 November Deferred Management Fees, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of the 2022 Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 November Deferred Management Fees would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- If at any time before the 2022 November Deferred Interest and the 2022 November Deferred Management Fees and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.
- The Company agreed to comply with all of its obligations under the prior deferral agreements assigned to JDZF.
- The Company and JDZF agreed that nothing in the 2022 November Deferral Agreement prejudices JDZF's rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.

16. CONVERTIBLE DEBENTURE (CONTINUED)

16.5 Interest deferral and settlement (Continued)

On March 24, 2023, the Company and JDZF entered into an agreement (the "2023 March Deferral Agreement") pursuant to which JDZF agreed to grant the Company a deferral of (i) the 2023 May Cash Interest which will be due and payable on May 19, 2023 under the Convertible Debenture; (ii) the 2022 May Deferred Amounts which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated May 13, 2022; (iii) the 2021 July Deferred Amounts which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated July 30, 2021; and (iv) November Deferred Amounts which are due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated November 19, 2020.

The effectiveness of the 2023 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2023 March Deferral Agreement are subject to the approvals from the TSX and the disinterested shareholders of the Company in accordance with the requirements of Section 501(c) of the TSX Company Manual and the Rule Governing the Listing of Securities on the HKEX. The requisite shareholder approvals for the 2023 March Deferral Agreement were obtained at a special meeting of shareholders convened on August 29, 2023.

The principal terms of the 2023 March Deferral Agreement are as follows:

- Payment of the 2023 March Deferred Amounts will be deferred until August 31, 2024 (the "Deferral Date").
  As consideration for the deferral of the 2023 March Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2023 March Deferred Amounts, commencing on the date on which each such 2023 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.
- As consideration for the deferral of the 2023 March Deferred Amounts which relate to payment obligations arising from Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2023 March Deferred Amounts commencing on the date on which each such 2023 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The 2023 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2023 March Deferred Amounts or related deferral fees. Instead, the 2023 March Deferral Agreement requires the Company to use its best efforts to pay the 2023 March Deferred Amounts and related deferral fees due and payable under the 2023 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2023 March Deferral Agreement and ending as of the Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2023 March Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.

16. CONVERTIBLE DEBENTURE (CONTINUED)

16.5 Interest deferral and settlement (Continued)

- If at any time before the 2023 March Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

On October 13, 2023, the Company and JDZF entered into the 2023 November Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of (i) PIK interest of approximately $4.0 million which will be due and payable on November 19, 2023 under the Convertible Debenture; and (ii) the management fees payable to JDZF on November 15, 2023, February 15, 2024, May 16, 2024 and August 15, 2024, respectively, under the Amended and Restated Cooperation Agreement.

The principal terms of the 2023 November Deferral Agreement are as follows:

- Payment of the 2023 November Deferred Amounts will be deferred until August 31, 2024.
- As consideration for the deferral of the 2023 November Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2023 November Deferred Amounts, commencing on the date on which each such 2023 November Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.
- As consideration for the deferral of the 2023 November Deferred Amounts which relate to payment obligations arising from Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2023 November Deferred Amounts commencing on the date on which each such 2023 November Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The 2023 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2023 November Deferred Amounts or related deferral fees. Instead, the 2023 November Deferral Agreement requires the Company to use its best efforts to pay the 2023 November Deferred Amounts and related deferral fees due and payable under the 2023 November Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2023 November Deferral Agreement and ending as of the Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2023 November Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.
- If at any time before the 2023 November Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

17. RELATED PARTY TRANSACTIONS

The condensed consolidated interim financial statements include the financial statements of SouthGobi Resources Ltd. and its significant subsidiaries listed in the following table:

		% equity interest as at	
Name	**Country of incorporation**	**September 30, 2023**	**December 31, 2022**
SouthGobi Resources (Hong Kong) Limited	Hong Kong	**100%**	100%
SouthGobi Sands LLC	Mongolia	**100%**	100%
SGQ Coal Investment Pte. Ltd.	Singapore	**100%**	100%
SouthGobi Trading (Beijing) Co., Ltd. (i)	China	**100%**	100%
Inner Mongolia SouthGobi Energy Co., Ltd.	China	**100%**	100%
Inner Mongolia SouthGobi Mining Development Co., Ltd.	China	**100%**	100%
Inner Mongolia SouthGobi Trading Co., Ltd.	China	**100%**	100%
Wuhai SouthGobi Mining Resources Co., Ltd.	China	**100%**	100%

(i) SouthGobi Trading (Beijing) Co., Ltd. was registered as a wholly-foreign-owned enterprise under law of China.

In addition to the transactions detailed elsewhere in profit or loss, the Company had related party transactions with the following company related by way of directors or shareholders in common during the nine months ended September 30, 2023:

- The management fee shall be calculated based on 1.5% of the revenue of the Company and to be paid to JDZF on a quarterly basis.

During the three and nine months ended September 30, 2023, management fee of $1,754 and $3,650 were recorded in profit or loss, respectively (three and nine months ended September 30, 2022: $666 and $821, respectively).

As at September 30, 2023, there was no deferred revenue received (December 31, 2022: $2,256) from an affiliate of Land Grand in the deferred revenue balance, which was related to receipt in advance for future coal sales before they became the related parties of the Company on November 28, 2022.

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

17. RELATED PARTY TRANSACTIONS (CONTINUED)

17.1 Related party expenses

The Company's related party expenses consist of the following amounts:

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Finance costs	**$ 12,664**	$ 10,207	**$ 34,939**	$ 29,053
Management fee	**1,754**	666	**3,650**	821
Rental expenses(i)	**22**	-	**50**	-
Warehouse logistics expenses(ii)	**-**	-	**98**	-
Office supplies expenses(iii)	**14**	-	**50**	-
Related party expenses	**$ 14,454**	$ 10,873	**$ 38,787**	$ 29,874

(i) Rental expenses payment to a related company were conducted in the normal course of business and in accordance with terms of the lease agreement entered into between the Company and the related company. The lessor is a controlled entity by the Company's largest shareholder to be classified as a related company (September 30, 2022: $nil).

(ii) Warehouse logistics expenses payment to a related company were conducted in the normal course of business and in accordance with terms of the logistics agreement entered into between the Company and the related company. The logistic company is a controlled entity by the Company's second largest shareholder to be classified as a related company during the period from January 1, 2023 to May 8, 2023 (September 30, 2022: $nil).

(iii) Office supplies expenses payment to related companies were conducted in the normal course of business. The office supplies companies are controlled entities by the related party of the Company's largest shareholder to be classified as related companies (September 30, 2022: $nil).

18. SUPPLEMENTAL CASH FLOW INFORMATION

18.1 Non-cash financing and investing activities

The Company's non-cash investing and financing transactions are as follows:

	Nine months ended September 30,	
	2023	**2022**
Depreciation and amortisation capitalised in mineral properties	**$ 1,649**	$ 1,520
Increase in decommissioning liability	**657**	1,036

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

18. SUPPLEMENTAL CASH FLOW INFORMATION (CONTINUED)

18.2 Net change in non-cash working capital items

The net change in the Company's non-cash working capital items is as follows:

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Decrease/(increase) in inventories	**$ (7,852)**	$ 17,840
Increase in trade and other receivables	**(4,486)**	(306)
Increase in prepaid expenses	**(5,994)**	(136)
Increase/(decrease) in trade and other payables	**5,771**	(3,155)
Decrease in deferred revenue	**(18,964)**	(371)
Net change in working capital items	**$ (31,525)**	$ 13,872

Depreciation and depletion capitalised in inventories for the nine months ended September 30, 2023 totaled $265 (September 30, 2022: $1,224).

19. COMMITMENTS FOR EXPENDITURE

The Company's commitments for expenditure that have not been disclosed elsewhere in the condensed consolidated interim financial statements are as follows:

	Within 1 year	2-3 years	Over 3 years	Total
As at September 30, 2023				
Capital expenditure commitments	**$ -**	**$ -**	**$ -**	**$ -**
Operating expenditure commitments	**1,278**	**39**	**199**	**1,516**
Commitments	**$ 1,278**	**$ 39**	**$ 199**	**$ 1,516**
As at December 31, 2022				
Capital expenditure commitments	$ -	$ -	$ -	$ -
Operating expenditure commitments	2,154	39	210	2,403
Commitments	$ 2,154	$ 39	$ 210	$ 2,403

20. CONTINGENCIES

20.1 Class Action Lawsuit

In January 2014, Siskinds LLP, a Canadian law firm, filed a class action (the “Class Action”) against the Company, certain of its former senior officers and directors, and its former auditors (the “Former Auditors”), in the Ontario Court in relation to the Company’s restatement of certain financial statements previously disclosed in the Company’s public fillings (the “Restatement”).

To commence and proceed with the Class Action, the plaintiff was required to seek leave of the Court under the Ontario Securities Act (“Leave Motion”) and certify the action as a class proceeding under the Ontario Class Proceedings Act. The Ontario Court rendered its decision on the Leave Motion on November 5, 2015, dismissing the action against the former senior officers and directors and allowing the action to proceed against the Company in respect of alleged misrepresentation affecting trades in the secondary market for the Company’s securities arising from the Restatement. The action against the Former Auditors was settled by the plaintiff on the eve of the Leave Motion.

Both the plaintiff and the Company appealed the Leave Motion decision to the Ontario Court of Appeal. On September 18, 2017, the Ontario Court of Appeal dismissed the Company’s appeal of the Leave Motion to permit the plaintiff to commence and proceed with the Class Action. Concurrently, the Ontario Court of Appeal granted leave for the plaintiff to proceed with their action against the former senior officers and directors in relation to the Restatement.

The Company filed an application for leave to appeal to the Supreme Court of Canada in November 2017, but the leave to appeal to the Supreme Court of Canada was dismissed in June 2018.

In December 2018, the parties agreed to a consent Certification Order, whereby the action against the former senior officers and directors was withdrawn and the Class Action would only proceed against the Company.

To date, the counsel for the plaintiff and defendant have completed: (i) all document production; (ii) oral examinations for discovery; and (iii) counsel for the plaintiff has served their expert reports on liability and damages. Counsel for the plaintiff and defendant have agreed on the case management judge, who has ordered a motion for further discovery and various other relief to commence on May 13 and 14, 2024. Following the determination of the motion and any subsequent order to re-attend examinations, counsel for the defendant will serve responding expert reports on liability and damages approximately one month following any re-examinations/further examinations are completed. Counsel for the plaintiff and defendant have requested a further case conference to set a new trial date following the undertakings motion and serving of expert reports. The Company has urged a trial as early as possible.

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has determined that a provision for this matter as at September 30, 2023 was not required.

20. CONTINGENCIES (CONTINUED)

20.2 Toll Wash Plant Agreement with Ejin Jinda

In 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of China Mongolia Coal Co. Ltd., to toll-wash coal from the Ovoot Tolgoi Mine. The agreement had a duration of five years from commencement of the contract and provided for an annual washing capacity of approximately 3.5 million tonnes of input coal.

Under the agreement with Ejin Jinda, which required the commercial operation of the washing facility to commence on October 1, 2011, the additional fees payable by the Company under the washing contract would have been $18,500. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this $18,500 will be required to be paid.

Accordingly, the Company has determined a provision for this matter at September 30, 2023 was not required.

20.3 Tax Legislation

Mongolian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. The Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. The Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as VAT, withholding tax, corporate income tax, personal income tax, transfer pricing and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to tax and other legislation will be sustained. Management believes that the Company may be impacted once such unfavourable event happens. The management performs regular re-assessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

As of September 30, 2023, the Company has recorded a provision for a tax penalty in the amount of $74,990, as more particularly detailed under Note 8 of the condensed consolidated interim financial statements. Management will continue to assess whether any subsequent event may impact the amount of the provision for the tax penalty, in which case an adjustment would be recognized in profit or loss and the carrying amount of the provision shall be adjusted.